



**Council Auditor's Office**

**Follow-Up on Risk Management Workers' Compensation Audit**

**Report #792A**

**Released on: June 3, 2020**

**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



June 3, 2020

Report #792A

Honorable Members of the City Council  
City of Jacksonville

The purpose of this report is to document our follow-up review of our past report #792, Risk Management Workers' Compensation Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

We sent a follow-up letter to the Risk Management Division on May 14, 2019 inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses.

Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

<b>Types of Issues</b>	<b>Original Number of Issues</b>	<b>Issues Cleared</b>	<b>Remaining Issues</b>
Internal Control Weaknesses	7	2	5
Findings	9	5	4
Opportunities for Improvement	5	3	2
<b>Total</b>	<b>21</b>	<b>10</b>	<b>11</b>

The following is a brief summary of the remaining issues with responses from Twane Duckworth, Chief of Risk Management, that we received on April 3, 2020.

**Internal Control Weakness 1 - System Access Rights Issues – Unlimited Access**

In the original audit, we found that 21 users had unlimited access to the claims management system (17 were vendor users). They could issue an unlimited number of checks for an unlimited amount of money, create/modify/delete vendors, create new user accounts, reset passwords for existing users, modify users' access rights, and permanently clear activity monitoring history. We recommended that the system administrator be someone who is not directly involved in claims processing and that access rights be reviewed at least once a year with access being granted based on job functions.

During the follow-up review, we were satisfied with the reduced number of current users from the Risk Management Division that had the unlimited access. However, we were unable to confirm that a periodic access rights review takes place. The system administrator stated that she continuously monitors access rights; however, she was unable to provide any proof that could show a review was performed periodically. Also, there was no written standard operating procedure that would explain how often a review should be conducted and what steps should be taken. We recommend a written standard operating procedure be put in place that would explain how the review should be conducted, how the review should be documented, and how often the review should occur.

***Risk Management Division Response to the Follow-Up of Internal Control Weakness 1***

Agree                       Disagree                       Partially Agree

*Risk agrees; Risk will establish a SOP for a System Access Rights review to meet the Council Auditor's recommendation and to conduct, at a minimum, a review on an annual basis.*

**Internal Control Weakness 2 - System Access Rights Issues**

In the original audit, we found that a few users had excessive or inappropriate access rights which in some instances also caused separation of duties issues. We recommended that the Risk Management Division periodically review access rights for all users to ensure they are only granted the access rights they need to perform their job functions and that those access rights do not create any separation of duties issues.

During the follow-up review, we still found some access rights issues:

1. While we were reviewing and questioning generic accounts with no identification information (first name/last name/email), the division stated that three of the generic accounts would be deactivated, one of which had administrator access.
2. There were 24 active users who had not logged in for years (login dates ranged from 2011-2018 as of October 2019). There were an additional 11 accounts belonging to users who had never logged into the system. All of those 35 accounts, except for one that belonged to the City's database administrator, were vendor accounts. (Note subsequent to inquiry based on this follow-up, the vendor stated it would deactivate all accounts that were not needed.)
3. There was an active account for a JEA user that had more than just read-only access that should have been previously deactivated since the access was not needed. (Note the account was deactivated after we communicated this issue to the division.)

We recommend that the division continue to review the access rights and work to avoid these issues in the future.

***Risk Management Division Response to the Follow-Up of Internal Control Weakness 2***

Agree                       Disagree                       Partially Agree

*Risk agrees; the accounts described above have all been deactivated and the vendor will notify Risk of any future needs to activate an account for maintenance purposes.*

**Internal Control Weakness 3 - Workers' Compensation Checks Segregation of Duties Issues**

In the original audit, we found that one of the employees authorized to pick up checks at City Treasury issued by the workers compensation area was also able to issue checks in the system and was also responsible for reconciling checks issued in the claims management system to checks printed by City Treasury. We recommended that the Risk Management Division establish proper separation of duties for the issuance, handling, and reconciliation of workers compensation checks by making sure that no employee has the ability to perform more than one of these functions.

During the follow-up review, we found the following separation of duty issues:

1. Two employees could initiate checks in the system, could pick up checks from Treasury, and were responsible for check reconciliation;
2. One employee could initiate checks in the system and was responsible for check reconciliation;
3. Two employees could initiate checks in the system and could pick up checks from Treasury.

***Risk Management Division Response to the Follow-Up of Internal Control Weakness 3***

Agree                       Disagree                       Partially Agree

*Risk partially agrees because before being updated, the profile settings gave a false appearance of check issuing capability. The profile settings would show the check issuance as authorized, however, there was another setting that limited that same authority to \$0. So, if the user tried to actually "issue" a check it could only produce for an amount of \$0. To avoid this perceived conflict, the user profiles in question were updated to remove the check issuance authority completely.*

**Internal Control Weakness 4 - No Supervisory Review of Activity in the Claims Management System**

In the original audit, we found that there was no supervisory review of activity tracking reports or any other review of staff's activity in the claims system. Reviews could help detect any questionable activity, including users who are inappropriately issuing checks or deleting valuable information. We recommended that Risk Management Division begin performing periodic

supervisory review of user activity in the claims management system for workers compensation users on a periodic basis.

During the follow-up review, we learned that Risk Management Division does not regularly review any kind of activity tracking report, and that the audit trail would be reviewed only if there was a specific reason for review. Moreover, management provided a copy of the 65-page PDF report that listed all actions taken by one user in just one day and explained that activity monitoring is not performed due to manpower and bandwidth issues. However, if reports were to be reviewed as Excel files (which the system provides), using tools like a filter would allow management to quickly search for any irregular or questionable actions. For example, a reviewer could be checking for the following “red flags”:

1. Checks issued by users who are not authorized to issue checks;
2. Deleted claims or incidents;
3. Incidents created by adjusters (incidents should be created by the front desk personnel);
4. Reserves for claims updated by a user who is not an adjuster;
5. Claim action completed by a vendor user or any other user who should not be processing claims.

Finally, such review could be done on a periodic and sample basis to decrease the amount of time needed to complete the review.

#### ***Risk Management Division Response to the Follow-Up of Internal Control Weakness 4***

Agree                       Disagree                       Partially Agree

*Risk agrees; Risk will run the auditing function on a quarterly basis to spot check for red flags.*

#### **Finding 1 - Work-Related Support Issues**

In the original audit, we were unable to locate adequate support confirming that workers compensation incidents were reviewed and approved by the injured worker’s supervisor 28 out of 159 times (18%). In most of those cases, First Report of Injury forms were not signed by the supervisor, and/or the supervisor did not check that they agreed with the description of the accident. We recommended that, in the event that incomplete information is submitted, the Risk Management Division always follow-up with the responsible parties until the information is provided.

During the follow-up review, we reviewed a total of 13 incidents in the system and found some issues with the First Report of Injury or Illness forms for 11 of them:

- For six incidents that were reported electronically, there was no form on file;
- For two incidents that were reported electronically and had a form on file, the employer signature was mistakenly substituted with an adjuster’s name and the “Agree with description of accident” box was not checked on the form;
- For three incidents that were reported on a hard-copy form, the “Agree with description of accident” box was not checked.

We also found that a copy of the form was not sent out to the injured worker in the past. It should be noted that Risk Management Division stated that this issue was fixed in November of 2019 as we were reviewing forms. We will confirm that forms are sent out in the next follow-up review.

***Risk Management Division Response to the Follow-Up of Finding 1***

Agree                       Disagree                       Partially Agree

*Risk agrees; Risk has updated the Origami system to automatically email a copy of the completed First Report of Injury to the employee and the employee's respective Risk Manager or HR office for information and compliance confirmation.*

**Finding 4 - Deleted Claim Numbers**

In the original audit, we identified 18 missing claim numbers in the audit population of 2,259 workers compensation claims which were deleted due to being duplicate or test claims. No record was maintained in the system for those claims. We recommended that the Risk Management Division void claims instead of deleting them and cease using live claim numbers for test purposes. We also recommended that the ability to create claims be limited to a smaller number of users (preferably one designated employee and a back-up) and that supervisory approval should be required prior to voiding a claim in the system.

During the follow-up review, we found 13 missing claim numbers in the population of 1,070 claims after removing other gaps that occurred when switching to the new system.

***Risk Management Division Response to the Follow-Up of Finding 4***

Agree                       Disagree                       Partially Agree

*Risk agrees; This is because there were some onboarding issues between the transition from Marsh ClearSight to Origami and not all incidents are converted into claims. Also some incidents were voided and rekeyed due to incorrect information being entered, once an incident is submitted, some information cannot be edited and a new incident has to be submitted.*

**Finding 5 - Risk Management Reimbursing Employers Through Their Employees**

In the original audit, we found that after an employee of the Jacksonville Housing Authority received an advanced workers compensation benefit payment from their employer, the Risk Management Division made the payment directly to the employee instead of reimbursing the employer as required by state law (F.S. 440.20(5)):

*“If the employer has advanced compensation payments or benefits to the employee, the carrier shall reimburse the employer for the advanced payments if the employee is entitled to compensation and benefits pursuant to this chapter.”*

We recommended that the Risk Management Division reimburse an employer directly instead of issuing a check to an employee if an employer makes an advanced workers compensation benefit payment to an employee.

During the follow-up review, we found no similar payment situations to test, so we interviewed staff who confirmed that a payment would still be made to an employee in such a situation. If the Risk Management Division is not going to follow F.S. 440.20(5), they should get written guidance from the Office of General Counsel to support this decision.

***Risk Management Division Response to the Follow-Up of Finding 5***

Agree                       Disagree                       Partially Agree

*Risk agrees; Risk is obtaining legal opinions for confirmation.*

**Finding 6 - Impairment Benefit Payment Issues**

Florida Statutes provide for impairment benefits for injured employees, if an impairment still exists once the employee has reached maximum improvement. The benefit amount and length of time for the benefit payments are dictated by Section 440.15(3) of the Florida Statutes. The same section of the Florida Statutes requires that the employee’s impairment benefit payment be reduced by 50% if, while being paid the impairment benefit, they earned pay equal to or greater than average weekly wage as calculated when the employee was injured.

In the original audit, we found that impairment benefit payments were inaccurately paid in 14 out of 47 (30%) payments tested mainly due to the 50% reduction not being applied accurately. Also, 8 out of 47 (17%) payments were not made in a timely manner. We recommended that the Risk Management Division have payments occasionally reviewed by those other than the assigned adjuster to ensure payment correctness and timeliness.

During the follow-up review, we found that the Risk Management Division adopted a practice of not reducing impairment benefits by 50% for employees who earned income equal to or in excess of the employee’s average weekly wage at the time of injury. The Division explained that they made an internal management decision to never reduce payments by 50% to avoid situations where a payment would be incorrectly reduced by 50%. In those cases, per the division, penalties, interest and in some cases attorney fees would have to be paid if wages were reduced incorrectly.

It appears that a decision to sometimes overpay to avoid penalties, interest and attorney fees was made as an alternative to 1) creating a process where actual hours worked and wages earned could be checked before payment is made to determine if a payment needs to be reduced by 50% or 2) creating a process where a periodic review of actual hours worked and wages earned is performed and a current payment is adjusted for any overpayments in the past when payments were not reduced by 50% as dictated by Florida Statute 440.15(3).

As a result of the current practice, two out of five payments tested were inaccurate (one employee was overpaid by \$399.98, and the other employee was overpaid \$687.75).

We then tested the timeliness of those five payments and the timeliness of ten additional payments made to other employees. If a payment was not an initial payment to an employee, we also tested the timeliness of the initial payment to the employee. This resulted in 24 payments (15 initial and 9 subsequent) being tested. We found that 3 (or 13%) of them were late:

- Two out of 15 initial payments were made 50 and 25 days late;
- One out of nine subsequent payments was made 19 days late.

Finally, it appears that there was no review of payments by a second person, as we had recommended.

### ***Risk Management Division Response to the Follow-Up of Finding 6***

Agree                       Disagree                       Partially Agree

*Risk agrees that payments should be timely and several were late. Risk is reinforcing this objective with the adjusters.*

*Risk only partially agrees with the remainder. There is no practical method to timely ensure the 50% / 75% calculation is performed with any accuracy to avoid occasional overpayments prior to payment. There is a one week lag for payment of wages to employees. If an injured worker takes off work for any reason (including a single hour for sick leave, annual leave - does not have to be related to the claim) during the week where impairment benefits are due, that qualifies them for payment at 75%. Therefore, Risk would have to be aware of hundreds of workers' schedule and adjust their pay in the Oracle system accordingly, when Risk will have no reasonable way of knowing this on a daily basis. When Risk made an effort to keep up with these calculations, the local plaintiffs bar was able to successfully pursue litigation because despite the employee making well above the amount to cause a reduction to the 50% indemnity, the employee happen to take leave for a two hour appointment during the 2nd week of the pay period; Risk was unaware and we were sued for the 75% rate. A copy of case law from the 1st DCA, which was sent to the Auditor supports the payment of impairment benefits at the 75% rate. Litigation (and the costs associated therein) would rise exponentially.*

### **Opportunity for Improvement 3 – Standard Operating Procedures Improvements**

In the original audit, we noted some areas where the Risk Management Division could improve its workers compensation standard operating procedures. We recommended that the Risk Management Division update them to incorporate the general procedures involved in workers compensation payment processing and update the language related to out-of-office procedures in order to reflect the current process and minimize confusion for future hires unfamiliar with the process.

During the follow-up review, we found no changes had been made to the standard operating procedures.



***Risk Management Division Response to the Follow-Up of Opportunity for Improvement 3***

Agree                       Disagree                       Partially Agree

*Risk agrees and will follow up to make changes to the SOP accordingly.*

**Supplemental Internal Control Weakness 1 - Various Violations of the City's Cash Handling Standard Operating Procedures**

In the original audit, we noted various issues that violated the City's cash handling policy and procedures. We recommended that the Risk Management Division follow the City's cash handling policy and procedures which would include implementing processes that separate the functions of recording the cash receipts in the claims system, preparing and delivering the deposit, and the reconciliation of the division's revenues. We also recommended that the reconciliations and cash receipts be reviewed and approved by a supervisor. We recommended to designate an appropriate individual as a backup for the preparation of deposits and for all voided checks to be returned to Treasury in person by authorized personnel.

During the follow-up review, we found that the financial manager who prepared monthly reconciliations was one of two people who delivered deposits to the Tax Collector and also created one of five cash receipts tested. Additionally, while we found that monthly reconciliations were performed in a reasonable manner by the same financial manager, they were not reviewed by a second person.

Lastly, we found four out of five (80%) payments tested were not delivered to the Tax Collector the next business day but instead were delivered two to 13 calendar days later.

***Risk Management Division Response to the Follow-Up of Supplemental Internal Control Weakness 1***

Agree                       Disagree                       Partially Agree

*Risk Partially Agrees. This is largely a staffing issue. There are only two full-time people (a manager and assistant) within Risk's financial section, which makes it challenging to segregate all matters. Risk had two part-time people assisting with various aspects of the transaction, such as deposits. Coincidentally, the files selected for auditing occurred during a time when multiple staff were out office. Risk included an additional full-time staffer to the financial transactional process to promote the required segregation. In addition, Risks asserts the deposits are reconciled by the very nature of the process, which includes recordation in the Origami claim system, deposits in the tax collector (CR system) and posted in the City's financial ledger ICloud (formerly Famis) which are viewable by multiple parties.*

**Supplemental Opportunity for Improvement 1 - Establish Regular Workers' Compensation Training**

In the original audit, we found that workers compensation training was not being offered on a regular basis. We recommended that the Risk Management Division consider offering regular training opportunities to employees in all areas of the City who participate in the City's workers compensation plan, instead of by request only.

During the follow-up review, we found that training was provided for various departments from July 2017 through May 2018 only, but since then no regular training was provided by the division. We recommend that the Risk Management Division continue to offer more training on a regular basis in the future.

***Risk Management Division Response to the Follow-Up of Supplemental Opportunity for Improvement 1***

Agree                       Disagree                       Partially Agree

*Risk agrees; Trainings were reinstated in FY20 and have halted since the government has been on limited operations from COVID 19.*

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We would like to thank the Risk Management Division for their cooperation in conducting this follow-up review.

Sincerely,

*Kyle S. Billy*

Kyle S. Billy, CPA  
Council Auditor